

**REPORT OF THE AUDIT OF THE
CLAY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CLAY COUNTY SHERIFF

**For The Year Ended
December 31, 2007**

The Auditor of Public Accounts has completed the Clay County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$2,713 from the prior year, resulting in excess fees of \$58,374 as of December 31, 2007. Revenues increased by \$70,128 from the prior year and expenditures increased by \$72,841.

Debt Obligation:

The Sheriff's office is committed to a lease agreement totaling \$7,446 as of December 31, 2007. Future payments of \$7,446 are needed to meet this obligation.

Report Comments:

- The Sheriff Should Deposit Daily Receipts In A Timely Manner
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of March 12, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$254,574

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl E. Sizemore, Clay County Judge/Executive
The Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Clay County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 6, 2008 on our consideration of the Clay County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Carl E. Sizemore, Clay County Judge/Executive
The Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Deposit Daily Receipts In A Timely Manner
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Clay County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

November 6, 2008

CLAY COUNTY
KEVIN JOHNSON, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

Federal Grants	\$	54,109
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State Fees For Services:

Finance and Administration Cabinet	\$ 103,551	
Sheriff Security Service	17,563	
Telecommunications Tax	3,085	
Marijuana Eradication	1,666	
Other	<u>2,734</u>	128,599

Circuit Court Clerk:

Fines and Fees Collected		12,114
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Fiscal Court		111,047
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County Clerk - Delinquent Taxes		2,796
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Commission On Taxes Collected		147,271
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Other Fees On Taxes Collected:

10% Add-On Fees	27,223	
Advertising Fees	<u>5,610</u>	32,833

Fees Collected For Services:

Auto Inspections	7,606	
Accident and Police Reports	483	
Serving Papers	48,805	
Carrying Concealed Deadly Weapon Permits	<u>2,520</u>	59,414

Other:

Photo, Copies, Other Tax	16,554	
Transporting Mental Patients	5,180	
Reimbursement for Penalty - Internal Revenue Service	<u>27</u>	21,761

Interest Earned		<u>552</u>
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Total Revenues		<u>570,496</u>
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The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
 KEVIN JOHNSON, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$ 228,021	
Other Salaries	624	
Overtime	<u>5,081</u>	\$ 233,726
Employee Benefits-		
Employer's Share Social Security		22,169
Contracted Services-		
Contracted Services	1,775	
Advertising	248	
Vehicle Maintenance and Repairs	<u>2,933</u>	4,956
Materials and Supplies-		
Office Materials and Supplies	33,766	
Uniforms	<u>8,201</u>	41,967
Auto Expense-		
Gasoline	37,271	
Maintenance and Repairs	<u>17,302</u>	54,573
Other Charges-		
Conventions and Travel	2,336	
Dues	739	
Postage	938	
Insurance	3,616	
Bond	13	
Other	<u>4,083</u>	11,725
Capital Outlay-		
Office Equipment	5,057	
Equipment Lease	2,030	
Vehicles	<u>66,494</u>	<u>73,581</u>
Total Expenditures		442,697
Net Revenues		127,799
Less: Statutory Maximum		<u>68,578</u>
Excess Fees		59,221
Less: Training Incentive Benefit		<u>847</u>
Excess Fees Due County		58,374
Payment to Fiscal Court - March 4, 2008		<u>57,105</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 1,269</u>

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Clay County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Clay County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of March 12, 2007 public funds were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$254,574

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 4. Lease

The Clay County Sheriff entered into a lease agreement with Pitney Bowes for a postage machine. The agreement requires quarterly payments of \$438 to be completed in March 2012. The total remaining balance of the agreement was \$7,446 as of December 31, 2007.

Note 5. Grants

A. United States Department of Agriculture Rural Housing Service Grant

Clay County Fiscal Court entered into a grant agreement with the United States Department of Agriculture Rural Housing Service for \$54,109. The proceeds were used to purchase new vehicles for the Sheriff's Department. Clay County Fiscal Court agreed to provide the required 25% match of grant funds totaling \$13,527, along with an additional contribution of \$18,171 (total Fiscal Court contribution \$31,698). Funds available to the Sheriff for vehicles and other expenses totaled \$85,807 (Federal - \$54,109 plus Fiscal Court - \$31,698). Expenditures from the total funds available were \$59,544 for new vehicles and \$14,152 for vehicle related equipment, uniforms and other supplies and equipment. As of December 31, 2007, the balance from grant proceeds and contributions was \$12,111. This amount is not included as excess fees.

B. Kentucky Area Development Fund Grant

Clay County Fiscal Court received a \$3,000 grant from the Kentucky Area Development Fund (ADF) to be used for the purchase of vehicles for the Clay County Sheriff. The grant funds were transferred to the Sheriff and were used for the intended purpose.

Note 6. Donation From Non-Governmental Entity

The Clay County Sheriff's office received a \$1,000 donation from Wal-Mart. The donation was not earmarked for a specific purpose. The Sheriff did not expend any of the donated funds and as of December 31, 2007 the balance was \$1,000. This amount is not included as excess fees.

Note 7. State Forfeiture Account

The Sheriff maintains an account funded by proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. The purpose of this account is to purchase equipment for operating the Sheriff's office. The balance on January 1, 2007 was \$4,221 (transferred from former Sheriff), during the year receipts were \$1,976 and expenditures were \$5,288. The balance in the forfeiture account as of December 31, 2007 was \$909. This amount is not included as excess fees.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl E. Sizemore, Clay County Judge/Executive
The Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Clay County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated November 6, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clay County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clay County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Deposit Daily Receipts In A Timely Manner

The Clay County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Clay County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 6, 2008

COMMENTS AND RECOMMENDATIONS

CLAY COUNTY
KEVIN JOHNSON, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Deposit Daily Receipts In A Timely Manner

During 2007, the Sheriff did not always deposit receipts on a daily basis. Auditors noted instances in which deposits were made as many as six business days after the funds were received. The Department for Local Government has established minimum requirements for officials handling public funds, which include, "daily deposits intact into a federally insured banking institution." We recommend the Sheriff deposit receipts on a daily basis as required.

Sheriff's Response: I am aware of this and will comply.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties over accounting functions. The employee responsible for receiving and recording receipts, preparing bank deposits, preparing and signing checks, posting transactions to the ledgers, reconciling bank records to the ledgers, and preparing financial reports is also responsible for handling daily receipts, opening mail and balancing cash registers at the end of the day.

Segregation of duties over the accounting functions described above is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involved in receiving and recording daily receipts, preparing bank deposits, writing checks, posting transactions to the ledgers, reconciling bank records to the ledgers, and preparing financial reports. If these duties cannot be separated, strong oversight over those areas should be provided to the employee or employees responsible for these duties. If the Sheriff implements oversight instead of segregation of duties, this should be documented on the appropriate source documents.

Sheriff's Response: We are aware of all the above and are doing our best to make the necessary improvements as our budget allows.

